April 2, 2009

TEXANS CREDIT UNION

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Advanced Notice of Proposed Rulemaking to 12 CFR Part 704

Dear Ms. Rupp:

Texans Credit Union appreciates the opportunity to provide its comments on NCUA's advanced notice of proposed rulemaking (ANPR) regarding the structure of corporate credit unions. Texans believes it is important and appropriate for NCUA to take the opportunity of this financial crisis for a thoughtful examination of the role corporate credit unions play in the overall credit union system as well as the structure, operations and services of corporate credit unions.

While Texans recognizes the important role that corporate credit unions have played in the development and expansion of the credit union system over the past three decades, it agrees with the premise of the ANPR that recent events have served to highlight several structural vulnerabilities of corporate credit unions that need to be addressed in light of what the current financial environment has demonstrated to us. In our view, many of these vulnerabilities can be attributed to expanded investment authorities and national fields of membership, combined with insufficient oversight and lack of transparency. All of these factors led some corporate credit unions to assume excessive and unnecessary risk. Unfortunately, although they may not have been as evident over previous years when the marketplace was more stable and the economy stronger, these vulnerabilities have become increasingly apparent in the current economic environment resulting in substantial losses which have been passed on to natural person credit unions.

As noted above, we wholeheartedly support the efforts of NCUA to conduct a thorough and thoughtful examination of the corporate credit union system and to establish the rules necessary to bring about appropriate and meaningful changes. To that end, in our view it is absolutely critical that any changes made to the corporate credit union system be done in such a manner

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that will enhance and restore natural person credit union confidence in the corporate credit union system, reduce the likelihood of future losses, and increase the confidence and trust that the public places in all credit unions.

Our specific comments are detailed below.

Payment Systems: Texans agrees that payment system services should be isolated from other corporate credit union services in order to separate these services from the investment and liquidity risks that are inherent in corporate credit union operations. We do not believe a separate charter is needed to accomplish this. Alternatively, we believe a CUSO type structure, similar to the one used by natural person credit unions, would be sufficient to create the necessary legal and operational firewall between payment system services and other services provided by corporate credit unions. The payment systems CUSO should be capitalized at a level that is consistent with the size and scope of activities performed by the CUSO and the required capital to ensure the CUSO's success being provided by the users of the CUSO in some equitable manner, perhaps based upon service utilization. The price of all CUSO services should be based on market conditions with relevant and reasonable profit requirements in place to ensure the CUSO remains appropriately capitalized. Texans believes the current practice of utilizing profits from some services offered by corporate credit unions to subsidize other services is inappropriate and should be discontinued.

Liquidity: Texans believes providing liquidity to the credit union system is an extremely important role of the corporate credit union network and should be considered the core service of corporate credit unions. With that premise in mind, we believe NCUA should limit a corporate credit union's ability to offer specific types of products and services, as well as restrict investment authority, in order to ensure that corporate credit unions can be relied on to fulfill their primary function of providing liquidity. It is our opinion that corporate credit unions should not rely on special programs to meet their liquidity needs in the future, nor should natural person credit unions be obligated to fund these types of initiatives.

In light of the recent liquidity problems experienced by some corporate credit unions, it is entirely reasonable for NCUA to impose additional cash flow measurements in order to ensure each corporate credit union is achieving and maintaining proper liquidity management. These measurements might include, among other things, developing liquidity policies and plans, requiring net interest income modeling and mandating stress testing under various scenarios. Cash flow duration limits should be limited to no more than 3 to 5 years.

Investment Authority: We believe that the broad utilization of expanded investment authorities, combined with the authorization of national fields of membership, has resulted in some corporate credit unions assuming excessive and unnecessary risk. We believe the assumption of these risks has resulted from excessive concentration in certain types of investments and inadequate analysis of risk. At a minimum, we would encourage NCUA to set regulatory limitations on investment concentrations in order to ensure corporate investment portfolios are properly diversified by investment type, underlying collateral and issuer.

In connection with these actions on risk management in the investment portfolios of corporate credit unions, we likewise believe it would also be reasonable for NCUA to prohibit certain types of investments, particularly those that have lead to the current problems experienced by some corporate credit unions. Obtaining independent evaluations of investment portfolio credit risk and requiring more than a single rating for an investment also seems appropriate in light of recent events. Furthermore, we would be supportive of a requirement of periodic re-qualification for expanded investment authority on an annual basis.

Structure: The current structure of the corporate credit union network, which includes both a wholesale and multiple retail corporate credit unions, is not an efficient system. It results in redundant costs, creates unnecessary competition and is no longer needed in today's marketplace. Therefore, we would recommend the establishment of a single-tier system with only one corporate credit union to centralize operations and create operating efficiencies. In order to provide access to local support where needed, the establishment of an appropriate number of regional offices could take place.

Capital: Recent events have, without question, highlighted the need for revising various definitions and standards for determining appropriate capital levels for corporate credit unions. At a minimum, we would recommend the development and implementation of a risk based capital measurement system to ensure a corporate credit union's capital is consistent with its balance sheet risks in a manner that is consistent with what is required of other federally regulated financial institutions. We agree that natural person credit unions should be required to maintain a contributed capital account with a single, primary corporate as a prerequisite to obtaining services since it is unlikely that any corporate can accumulate sufficient capital solely through the accumulation of retained earnings. Texans believes the amount of required capital that would be contributed from natural person credit unions should be based on share balances maintained at the corporate credit union.

Governance: Corporate credit unions have evolved into highly complex organizations and, as such, they require both management and a governing board with appropriate knowledge and expertise. Texans supports the establishment of stringent minimum qualifications and training requirements for all corporate credit union directors. While we believe there are certainly a large number of individuals associated with natural person credit unions who possess the required knowledge and expertise to properly fulfill the responsibilities of a corporate credit union director, we also believe there is a great deal of potential value in looking beyond the credit union system for corporate credit union directors. We would suggest that at least one-third of the directors of corporate credit unions should come from outside of the credit union system. We agree that director term limitations should be established that would limit any director from serving for longer than a five year period in total. Further, directors should be elected on a staggered basis to ensure continuity on the board. We are not opposed to appropriately compensating all corporate credit union directors in order to ensure qualified individuals can be recruited and retained, and to also compensate them for the extensive time they will spend to fulfill their oversight responsibilities. While we recognize that the idea of compensating corporate directors is controversial, we do not see any reason why such compensation at the corporate credit union level should, if authorized by NCUA, compromise the tax exempt status of natural person credit unions as has been suggested by some.

In summary, we believe the corporate credit union system plays a very significant role in supporting natural person credit unions. Recent events have clearly highlighted the need to re-examine the current structure and operations of corporate credit unions in order to ensure they can continue to provide liquidity and payment systems services to natural person credit unions. We strongly believe the current two-tiered system should be eliminated, payment systems services should be isolated from liquidity services and regulatory oversight should be strengthened.

Again, thank you for the opportunity to comment on this advance notice of proposed rulemaking. We commend NCUA for taking the initiative for addressing these issues, and we would certainly encourage NCUA to continue to seek input from all stakeholders as it goes through this rulemaking process. Please do not hesitate to contact us if we can be a source of additional information about this comment letter or any other matter.

Sincerely,

Mike Sauer

Mike Sauer
Interim President and CEO